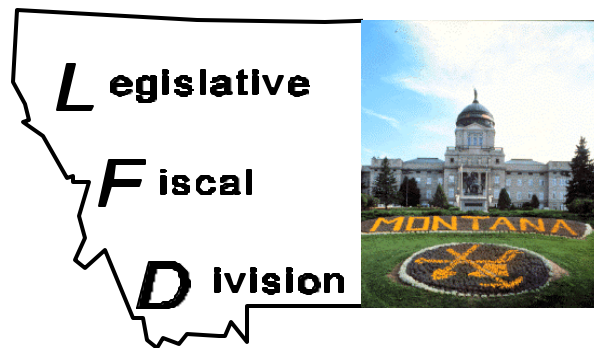


HIGHWAYS STATE SPECIAL REVENUE ACCOUNT: WORKING CAPITAL UPDATE

Prepared for the
Legislative Finance Committee
by

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HIGHWAYS STATE SPECIAL REVENUE ACCOUNT: WORKING CAPITAL UPDATE

Purpose

The purpose of this report is to provide the Legislative Finance Committee (LFC) with updated working capital balance projections of the highways state special revenue account (HSSRA). The analysis is being updated to reflect the fiscal 1999 actual revenues and expenditures. This report also includes a comparison between this update and the information provided in the fiscal report following the 1999 legislative session.

Expenditure and Revenue Projections

Table 1 shows the updated HSSRA working capital analysis. Table 1 shows the actual revenues and expenditures for fiscal years 1998 and 1999 along with projections of revenues and expenditures in fiscal years 2000 through 2005.

Revenue Assumptions

Revenues for fiscal years 1998 and 1999 are actual revenues recorded on SBAS. Projected gas and diesel tax and GVW (gross vehicle weight) revenues for fiscal years 2000 and 2001 are HJR 2 estimates from the 1999 legislature. Gas tax revenues are adjusted by a 1.0 percent annual growth factor (the HJR 2 growth rate for gas tax between fiscal 1999 and fiscal 2000 and between fiscal 2000 and fiscal 2001) for fiscal years 2002 through 2005. Starting in fiscal 2001, a reduction of gas tax revenue was included for anticipated alcohol incentives. The projected reductions of revenue associated with the tax incentive for the production of alcohol are based on the assumption that the alcohol plant in Great Falls will begin operating in fiscal 2001. The estimates assume the plant will receive a \$1.5 million incentive in fiscal 2001 and a \$3.0 million annual incentive thereafter through fiscal 2005 (15-70-522, MCA). Diesel tax revenues are adjusted by a 0.4 percent annual growth factor (the HJR 2 growth rate for diesel tax between fiscal 1999 and fiscal 2000 and between fiscal 2000 and fiscal 2001). GVW revenues are adjusted by a 2.5 percent annual growth rate (the HJR 2 growth rate between fiscal 2000 and fiscal 2001) for fiscal years 2002 through 2005. Estimates for miscellaneous other revenues and sales and reimbursement revenues were taken from the revenue estimates included in the statewide budgeting system (MBARS) for fiscal years 2000 and 2001, with the fiscal years 2002 through 2005 estimates at the fiscal 2001 estimate levels.

Revenue impacts of legislation passed by the 1999 legislature use the estimate from the latest fiscal note for the associated bill, except for HB 540. The fiscal impacts included on the HB 540 fiscal note were adjusted to correct an error in the assumptions used for the fiscal note. As such, additional revenue was added by including a volume of program cars that were excluded for the fiscal note. Here, program cars are defined as cars that were previously operated in the state by a rental or

leasing company but were subsequently sold as used cars and registered for the first time in the state by the purchaser. These cars were inadvertently excluded from the fiscal note assumptions. This additional revenue directly impacts the HSSRA by roughly \$2.0 million per year.

Expenditure Assumptions

Expenditures for fiscal years 1998 and 1999 are actual expenditures recorded on SBAS. The expenditure estimates for fiscal years 2000 and 2001 are appropriations. With a few exceptions noted below, expenditure projections for fiscal years 2002 through 2005 are fiscal 2001 appropriations adjusted by an annual growth factor of 3.0 percent.

<p style="text-align: center;">Table 1 Working Capital Analysis - Highways State Special Revenue Accounts ¹ Projected Revenues and Expenditures Fiscal Years 1998 -2005 Fiscal Year End 1999 Update</p>								
	Fiscal 1998 Actual	Fiscal 1999 Actual	Fiscal 2000 Appropriated	Fiscal 2001 Appropriated	Fiscal 2002 Estimate	Fiscal 2003 Estimate	Fiscal 2004 Estimate	Fiscal 2005 Estimate
BEGINNING WORKING CAPITAL BALANCE	\$39,249,313	\$48,466,448	\$48,974,472	\$34,341,935	\$21,797,892	\$11,985,994	\$10,675,678	\$11,748,238
REVENUE								
Gas Tax (HJ 2)	\$121,558,454	\$120,093,956	\$123,872,000	\$123,569,000	\$123,319,690	\$124,582,887	\$125,858,716	\$127,147,303
Diesel Tax (HJ 2)	47,888,506	51,171,425	48,301,000	48,509,000	48,703,036	48,897,848	49,093,440	49,289,813
G.V.W. (HJ 2)	30,037,602	30,983,409	32,479,000	33,300,000	34,132,500	34,985,813	35,860,458	36,756,969
Sales and Reimbursements	2,521,034	5,536,565	1,558,000	1,558,000	1,558,000	1,558,000	1,558,000	1,558,000
Miscellaneous Other Revenues	724,600	536,956	2,379,500	2,381,500	2,381,500	2,381,500	2,381,500	2,381,500
Impacts of Other Legislation (Revenue Impacts) ²			(652,328)	(707,967)	1,900,439	1,629,166	1,623,367	1,640,609
Prior Year Revenue Adjustment	(\$1,338,686)	\$2,982,406	\$0	\$0	\$0	\$0	\$0	\$0
TOTAL REVENUE	\$201,391,510	\$211,304,717	\$207,937,172	\$208,609,534	\$211,995,165	\$214,035,213	\$216,375,480	\$218,774,194
Available Working Capital	\$240,640,823	\$259,771,165	\$256,911,644	\$242,951,468	\$233,793,058	\$226,021,208	\$227,051,158	\$230,522,433
EXPENDITURES								
MDT Expenditures								
General Operations	\$11,230,602	\$12,352,448	\$14,036,690	\$13,816,609	\$14,062,324	\$14,312,408	\$14,566,940	\$14,825,998
State-Tribal Agreement - SA		22,820	28,122	28,036	28,036	28,036	28,036	28,036
Construction	65,007,977	73,665,908	75,822,770	72,500,530	\$74,350,164	\$76,246,985	\$78,192,198	\$80,187,037
Maintenance	67,188,133	68,576,673	63,736,431	70,851,944	\$72,123,453	\$73,417,780	\$74,735,336	\$76,076,536
Motor Carrier Services (G.V.W.)	4,482,676	4,601,324	4,818,099	4,788,335	\$4,813,876	\$4,839,553	\$4,865,367	\$4,891,319
Transportation Planning	1,019,547	769,088	1,495,864	1,410,657	\$1,442,376	\$1,474,807	\$1,507,968	\$1,541,875
MDT - Pay Plan (HB 13)			1,170,104	2,924,079	3,898,772	3,898,772	3,898,772	3,898,772
Debt Service/Bond Principal & Interest	\$15,213,921	\$13,690,865	\$13,932,718	\$13,935,352	\$13,936,852	\$3,798,551	\$0	\$0
Total MDT Expenditures	\$164,142,856	\$173,679,126	\$175,040,798	\$180,255,542	\$184,655,852	\$178,016,893	\$177,794,618	\$181,449,574
Local Distributions								
County Distribution - SA	10,389,000	10,389,000	10,389,000	10,389,000	10,389,000	10,389,000	10,389,000	10,389,000
City Distribution - SA	6,323,000	6,323,000	6,323,000	6,323,000	6,323,000	6,323,000	6,323,000	6,323,000
Local Technical Assistance Program - SA	<u>\$54,000</u>	<u>\$54,000</u>	<u>\$54,000</u>	<u>\$54,000</u>	<u>\$54,000</u>	<u>\$54,000</u>	<u>\$54,000</u>	<u>\$54,000</u>
Total Local Distributions	\$16,766,000	\$16,766,000	\$16,766,000	\$16,766,000	\$16,766,000	\$16,766,000	\$16,766,000	\$16,766,000
Other Agency Expenditures								
Department of Justice	15,838,664	15,850,092	15,574,250	15,632,319	\$15,781,592	\$15,932,290	\$16,084,428	\$16,238,018
Department of Justice - Pay Plan (HB 13)			235,817	553,300	737,733	737,733	737,733	737,733
Legislative Branch (HB 610 study, 1997 legislature)	9,137							
HB 5 Long-Range Building Program (Dept. of Fish, Wildlife & Parks)	1,175,418	845,359	750,000	750,000	750,000	750,000	750,000	750,000
HB 5 Long-Range Building Program (MDT Facilities)	\$987,187	\$1,810,937	\$2,225,000	\$2,225,000	\$2,225,000	\$2,225,000	\$2,225,000	\$2,225,000
Total Other Agency Expenditures	\$18,010,406	\$18,506,387	\$18,785,067	\$19,160,619	\$19,494,325	\$19,645,024	\$19,797,161	\$19,950,751
Impacts of Other Legislation (Expenditure Impacts) ²			\$1,831,023	\$2,014,137	\$890,886	\$917,613	\$945,141	\$973,495
Equipment Program Contributed Capital (SB 333 Startup)			\$10,146,821	\$2,957,278				
Prior Year Expenditure and Other Adjustments	(\$6,744,887)	\$1,845,180	\$0	\$0	\$0	\$0	\$0	\$0
TOTAL EXPENDITURES	\$192,174,375	\$210,796,693	\$222,569,709	\$221,153,576	\$221,807,063	\$215,345,529	\$215,302,920	\$219,139,821
REVENUE & EXPENDITURE VARIANCE	\$9,217,135	\$508,024	(\$14,632,537)	(\$12,544,043)	(\$9,811,898)	(\$1,310,316)	\$1,072,560	(\$365,627)
ENDING WORKING CAPITAL BALANCE	<u>\$48,466,448</u>	<u>\$48,974,472</u>	<u>\$34,341,935</u>	<u>\$21,797,892</u>	<u>\$11,985,994</u>	<u>\$10,675,678</u>	<u>\$11,748,238</u>	<u>\$11,382,611</u>

¹ Includes both the highway restricted and nonrestricted accounts

² Other legislation included in analysis: 1) Revenue impacts (SB 401, HB 138, HB 540); and Expenditure impacts (SB 164, SB 401, HB 135)

Statutory appropriations for: 1) county distributions (15-70-101(2)(b), MCA); 2) city distributions (15-70-101(2)(c), MCA); and 3) local technical assistance program (15-70-101(2)(a), MCA) are included at the statutory level; and at the fiscal 2001 level for 4) state-tribal agreements (18-11-112, MCA). Projections for HSSRA funded long-range building program expenditures for Fish, Wildlife & Parks and MDT Facilities for fiscal years 2002 through 2005 are half of the 2001 biennium appropriations for each year of the future biennia. Debt service estimates are based on payment schedules provided by MDT. These schedules show that the final bond payment will be made in fiscal 2003. Expenditure impacts of non-appropriation legislation passed by the 1999 legislature use the estimate from the latest available fiscal note for the associated bill.

Fund Balance Projections

Imbalance Between Revenues and Expenditures

Based on the above assumptions, expenditures in the 2001 biennium are anticipated to exceed revenues by \$27.2 million. This imbalance is expected to decrease to \$11.1 million in the 2003 biennium and reverse to a position of excess revenues during the 2005 biennium. The major contributor to the reversal of the imbalance is the retirement, in fiscal 2003, of the 1987 bond issue used to fund state match of the federal aid program and the state funded construction program.

Ending Working Capital Projections

The ending working capital balance for the HSSRA is projected to decline from \$48.9 million at the end of fiscal 1999 to \$11.4 million at the end of fiscal 2005.

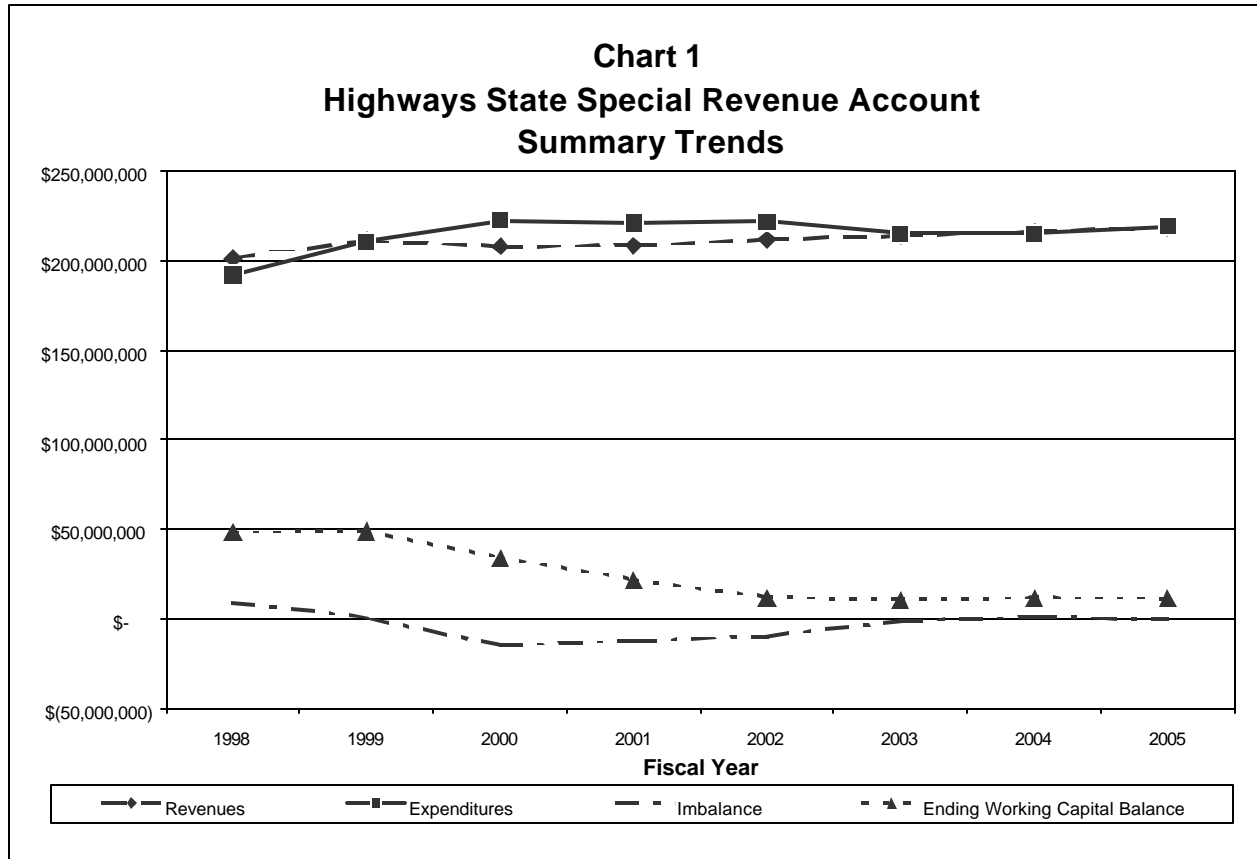
Account Stability

Chart 1 shows summary data for the HSSRA based on the updated analysis. Chart 1 includes historical and projected trends for: 1) revenues; 2) expenditures; 3) the difference between revenues and expenditures (a positive number means excess revenues); and 4) the ending working capital balance for each fiscal year.

Chart 1 shows that there is a projected imbalance between revenues and expenditures for fiscal years 2000 through 2003. However, this imbalance somewhat stabilizes by the end of fiscal 2003. The magnitude in which projected expenditures exceed projected revenues declines from \$14.6 million in fiscal 2000 to \$1.3 million in fiscal 2003. The situation reverses in fiscal 2004 when projected revenues exceed projected expenditures. During this period of excess expenditures, the HSSRA working capital balance is projected to decline from \$48.9 million at the end of fiscal 1999 to \$11.4 million at the end of fiscal 2005.

Comparison With Fiscal Report Projections

The anticipated situation for the HSSRA improved in this update as compared to the fiscal report following the 1999 legislature. The fiscal 2005 projected ending working capital balance has increased from \$2.5 million in the fiscal report to \$11.4 million in this update. The key factors that have produced this change are: 1) the actual fiscal 1999 ending working capital balance was \$48.9 million versus a projected \$30.0



million; 2) the fiscal impacts on the account from HB 540 were updated to correct errors in the fiscal note assumptions; 3) actual pay plan (HB 13) allocations for MDT and the Department of Justice were slightly different than were estimated; 4) gas tax revenues, based on HJR 2, were reduced to deduct statutory distribution of revenues to funds other than the HSSRA.

Actual revenues and expenditures during fiscal 1999 resulted in a \$18.9 million higher working capital balance than was projected in the fiscal report. Since the fiscal year was not completed, appropriations and revenue estimates recorded on SBAS were used as the basis for the estimates for fiscal 1999 in the fiscal report. The actual imbalance between expenditures and revenues was significantly (\$18.9 million) lower than was budgeted. This was the most significant difference between the fiscal report and this update.

The legislature passed HB 540, which revised the taxation of certain vehicles and replaced the current system of taxation of automobiles, vans, sport utility vehicles, and light trucks with a registration fee on light vehicles. The assumptions for the HB 540 fiscal note excluded revenues from original registrations on program cars. The inclusion of these program cars and an adjustment to the assumptions of interest income have resulted in roughly \$2.0 million higher annual revenues that were included in the fiscal report.

The HJR 2 estimates for gas tax revenues are total revenues after making deductions refunds and tax incentives. The estimates in the fiscal report made not adjustments to remove the portions of the revenue that are distributed to other funds, such as the off-highway vehicle account, state park account, snowmobile account, and the aeronautics account. This update makes this adjustment to consider only the portion of the gas tax that is distributed to the HSSRA.

Summary

This updated analysis for the highways state special revenue account provides an improved picture of the account's working capital balance than was anticipated at the end of the 1999 legislative session. The balance projected for the end of the 2001 biennium has improved from \$5.9 million to \$21.8 million. Likewise, the biennium ending balances have improved for both the 2003 and 2005 biennia. The fiscal 2005 ending working capital balance is now projected to be \$11.4 million as compared to \$2.2 million, as reported in the fiscal report following the 1999 regular legislative session. The projected revenues to the account are still anticipated to lag expenditures by roughly \$38.3 million over this and the 2003 biennia. During the 2005 biennium, the account is currently projected to return to a nearly balanced position.

This analysis shows a much-improved outlook for the HSSRA than has recently been presented. The account is projected to move toward a balanced position between revenues and expenditures, at least through the 2005 biennium. However, a word of caution should be made as to whether this balanced position will continue in the long-term (beyond the 2005 biennium).

Historically, the annual growth of revenues has been roughly 1.0 percent while the annual growth of expenditures has been roughly 3.0 percent. If this trend continues, the balance between revenues and expenditures will again move to a position of excess expenditures and begin to erode the account's working capital balance.